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19 JAN 1962

MEMORANDUM FOR: Director of Central Intelligence

SUBJECT : Selection of Airframe Contractor for Project OXCART

This memorandum is written for the purpose of presenting a brief history regarding the background information in connection with selection of the Airframe manufacturer for the OXCART Program and the contractual status thereof.

I. Original Project

a. The DSI by TS Document No. 103219 dated 7 January 1955 established Project AQMONE which in brief was as follows:

"In collaboration with the Air Force, to undertake the procurement of (1) 20 high-altitude aircraft, (2) photo-reconnaissance equipment, and (3) electronic-reconnaissance equipment, and to prepare for and conduct extensive overflights of the Soviet Bloc in order to provide photographic and, secondarily, electronic intelligence."

This document approved procurement of the Lockheed Aircraft Corporation proposed aircraft (designated CL-282, later known as the U-2) and indicated that "The Lockheed Aircraft Corporation proposal included full responsibility for the design, mock-up, building, secret testing, and field maintenance of this unorthodox vehicle."

b. Cost of 20 U-2 Vehicles and related work:

Original Proposal

Final Settlement

DOCUMENT NO. *92*
NO CHANGE IN CLASS.
1) DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: *20*

AUTH: HR 70-2

DATE: *160282* REVIEWED

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II. Replacement of U-2 Vehicle

- A. The following companies were authorized in late 1978 to perform studies, tests, and prepare preliminary designs:
 - (1) Convair Division, General Dynamics Corporation
 - (2) Lockheed Aircraft Corporation
- B. After review of the proposed replacement versions and anticipated costs, a decision was made in late summer of 1979 to proceed with the Lockheed Aircraft Corporation vehicle. This decision was made after a joint review and analysis of the two proposals by a group of senior-level personnel in the Department of Defense, Air Force, CIA, and concurred in by the President.

III. Headquarters System used for Acquisition of the U-2 and A-12 Vehicles

- A. In order to maintain maximum security and to operate with the speed required for a mission of this magnitude, a composite group now known as Development Projects Division was established. This Division consists of a nucleus of individuals, civilian and military, properly empowered to function as a self-supporting entity within the Agency. Their goal is as stated in Paragraph I above entitled "Original Project."
- B. Technical Guidance and Direction:

The Project Director of the U-2 and A-12 OXCART Programs has been Mr. Bissell, with assistance and technical support rendered by the Development Projects Division and special consultants as required. The philosophy of operation has been to select contractors carefully and to grant to contractors maximum technical responsibility and authority to get the job done in accordance with the contract terms and functional

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specifications. Generally, only significant technical choices, changes, or courses of action confronting a contractor which may have an impact on funding, schedules, or performance, are referred to the Project Director for consideration or decision. Technical progress of contractors is monitored by the Project Director through periodic reporting by contractors and supplier meeting conferences.

C. Contractual Arrangements

- (1) Fixed Price, Redeterminable Type of contract with a target and ceiling price. AFNII and AFPI contract provisions are followed except when security prevents compliance or CIA legislation grants exemption and when so approved by the Contracting Officer.
- (2) Contractual documents are reviewed by the DPD Technical Staff, DPD Comptroller, and Representative of the Office of General Counsel prior to signature by the DPD Contracting Officer and release to Lockheed Aircraft Corporation.
- (3) Contractual commitments are not made until the DCI has approved the budget which includes a line item for the specific work or a subsequent Activity Program.
- (4) Progress payments are made, pursuant to a standard progress payments clause included in the contract, upon approval of the Contracting Officer -- invoices being submitted approximately weekly.
- (5) Liquidation of progress payments are made upon approval of the Contracting Officer and receiving information as furnished by the authorized official of the DPD Depot.
- (6) Price analysis and audit of claimed costs are performed by an Air Force resident Auditor assigned solely for this purpose.

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- (7) Administration and settlement of the contract are handled by the same staff who negotiated the contract, thereby affording continuity of effort and understanding of problems encountered.
- (8) Final settlement is reviewed and approved by the DD/P prior to execution of the settlement document by the Contracting Officer.
- (9) Pricing, profit, and delivery time

The type of contract utilized for the A-12 Aircraft procurement is essentially the same as was used for procurement of the U-2; namely, a Fixed Price, redeterminable contract, providing for establishment of a target and ceiling price. The philosophy behind the contract has been and is that the Government is relying upon and buying the Contractor's technology, manufacturing, and flight test capability and integrity to design, develop, manufacture, and flight test a limited number of "way-beyond-the-state-of-the-art" aircraft vehicles. The Contractor's original proposal was predicated upon its not being required to submit otherwise normal and detailed AF reports, manuals, drawings, and other documentation for approvals. The Contractor's representative, Mr. C. L. Johnson, has indicated that his original proposal, as well as subsequent cost estimates, would have been at least 2% higher if standard aircraft procurement procedures were strictly enforced. Officials of the Government who are familiar with aircraft development have indicated that by eliminating Government approvals on reports, drawings, etc., that delivery of the first vehicle for flight test has been reduced by approximately one-half the development cycle normally encountered.

D. Current status of Contract DK-3559 with Lockheed Aircraft Corporation for ten (10) A-12 Vehicles (Project OXCART) is shown in the attached summary. This office has been advised orally that the Air Force is approving for production five (5) additional A-12 Vehicles. In addition to the A-12 Vehicles, by separate contract, [redacted]

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IV. Lockheed Aircraft Corporation System used for Development and Production of the U-2 and A-12 Vehicles

A. Established C. L. Johnson as president of the Advanced Development Projects with the following management criteria:

- (1) "Skunk Works" operation with a minimum number of people (10% of normal). These people are all cleared by CIA standards. The operation being located in one building conforming to CIA physical security requirements.
- (2) Monthly issuance of informal technical progress report
- (3) Monthly issuance of cost reports
- (4) Approval of procurement system for acquisition of raw materials, subcontract work, etc.
- (5) Utilization of Advanced Development Projects inspection system.
- (6) Engineering drawings (multiple parts on same drawings, i.e., adequate for good engineering)
- (7) Control of development and initial flight test program and evaluation
- (8) Informal explanation and coordination with Headquarters on major changes

B. The major advantages of this "Skunk Works" approach are as follows:

- (1) Dollar savings by use of fewer people
- (2) Significant time saving due to direct channels, fewer people, rapid decisions, unusual subcontractor relationship due to high-level contact and interest

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